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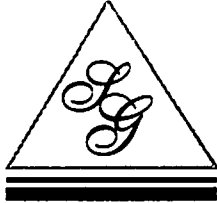
OGEMAW FIRE DEPARTMENT  
OGEMAW COUNTY, MICHIGAN

AUDITORS' REPORT  
YEAR ENDED DECEMBER 31, 2007

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## AUDITORS' REPORT

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August 12, 2008

Independent Auditors' Report

Members of the Board of Directors  
Ogemaw Fire Department  
Ogemaw County, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the Ogemaw Fire Department, Ogemaw County, Michigan, as of and for the year ended December 31, 2007, which collectively comprise the Fire Department's basic financial statements, as listed in the index. These financial statements are the responsibility of the Ogemaw Fire Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Ogemaw Fire Department, Ogemaw County, Michigan, as of December 31, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

As described in Note 2, the Ogemaw Fire Department has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as of December 31, 2007.

*Stephenson, Gracik & Co., P.C.*

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The discussion and analysis of the Department's financial performance provides an overview of the Department's financial activities for the year ended December 31, 2007. The intent of this discussion and analysis is to look at the Department's financial performance as a whole. The discussion focuses on the Department's primary government. This analysis, a requirement of Governmental Accounting Standards Board Statement 34 (GASB 34), omits certain comparative data that will be available in future years.

**Financial Highlights**

- The Department's assets exceeded its liabilities by \$1,032,650.
- The Department's total net assets decreased by \$20,743.
- The Department's governmental fund reported combined ending fund balance of \$129,374 this year, an increase of \$78,319. The entire amount is available for spending (unreserved fund balance).

**Overview of the Financial Statements**

The financial statements are organized so the reader can understand the Department as a financial whole or as an entire operating entity. The statements also provide a detailed look at specific financial conditions.

The Department's basic financial statements are comprised of three components: The government-wide financial statements, fund financial statements, and notes to financial statements. The report also contains other supplementary information in addition to the basic financial statements.

**Government-wide Financial Statements**

The *statement of the net assets* and the *statement of activities* display information about the Department as a whole. The statements include the financial activities of the primary government.

The statement of net assets presents the financial condition of the governmental activities of the Department at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Department's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function.

Program revenues include charges paid by the recipient for the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Department with certain limited exceptions. The comparisons of direct expenses with program revenues identifies the extent to which each governmental program is self-financing or draws from the general revenues of the Department.

**Fund Financial Statements**

The Department uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Department operates under one fund which is considered a *Governmental Fund*.

## Governmental Funds

Governmental Funds are those through which most governmental functions of the Department are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

## Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided on the Department's *government-wide* and *fund* financial statements. The notes to financial statements are presented on pages 12 - 20 of this report.

## Government -Wide Financial Analysis

Because this is the first year of implementation of Government Accounting Standards Board Statement No. 34, which requires this new reporting model, the following tables present only current year data. In future years, when prior-year information is available, comparative analysis of government-wide data will be presented.

## Summary of Net Assets

The following summarizes the net assets of the Department :

	<u>Governmental Activities</u>
	<u>Year Ended</u> <u>December 31, 2007</u>
<b>Assets</b>	
Current Assets	\$ 134,220
Capital Assets, Net	<u>903,276</u>
Total Assets	<u>1,037,496</u>
<b>Liabilities</b>	
Accrued Liabilities	<u>4,846</u>
<b>Net Assets</b>	
Invested in Capital Assets	903,276
Unrestricted	<u>129,374</u>
Total Net Assets	<u>\$ 1,032,650</u>

## Summary of Changes in Net Assets

Following is an analysis of the changes in net assets of the Department for the fiscal year 2007. Since this is the first year the Department has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2006 are not available. In future years, when prior year information is available, a comparative analysis of government wide data will be presented.

Generally speaking, the Department's net assets represent the difference between assets and liabilities.

<u>Governmental Activities</u>	
	<u>Year Ended</u> <u>December 31, 2007</u>
<b>Program Revenues</b>	
Charges for Services	\$ 40,821
<b>Program Expenses</b>	
Fire	<u>167,299</u>
<b>Net Program Revenues (Expenses)</b>	(126,478)
<b>General Revenues</b>	
Intergovernmental	134,028
Investment Earnings	2,051
Sale of Capital Assets	3,500
Other	<u>7,642</u>
<b>Change in Net Assets</b>	20,743
<b>Beginning Net Assets</b>	<u>1,011,907</u>
<b>Ending Net Assets</b>	<u>\$ 1,032,650</u>

#### **Governmental Activities**

The *Statement of Activities* illustrates the expense incurred and revenue received.

Total Governmental activities reveal revenues of \$134,028 from Intergovernmental sources. This includes contributions of \$24,950 from Churchill Township, \$17,997 from Edwards Township, \$12,640 from Horton Township, \$16,318 from Ogemaw Township, \$40,564 from West Branch Township and \$21,559 from the City of West Branch.

#### **Financial Analysis of Department**

As noted earlier in this report, the Department uses fund accounting to ensure and demonstrate compliance with finance related statutory and legal requirements. A thorough review and examination of fund types will reveal the strengths and weaknesses of daily operations.

#### **Governmental Funds**

Governmental funds are those through which most governmental functions of the Department are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The difference between governmental fund assets and liabilities is reported as fund balance. The Department operates under one fund which is considered a major governmental fund.

#### **Budgetary Highlights**

The Department's budget is prepared according to Michigan law. Actual revenue was \$188,042. That amount is above the original and final budget estimates of \$146,028 mainly due to receiving more in fire run revenue than expected.

The actual expenditures were \$109,723 which is above the original and final amended budget estimates of \$97,300 and \$105,000, respectively. The variance between the actual expenditures and the original and final amended budgets was due to the increased spending in various areas.

**Capital Assets**

Capital Assets are defined by the Department as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at *historical cost* or *estimated historical cost* if purchased or constructed. Donated capital assets are recorded at estimated FMV (fair market value) at the date of donation.

At the end of 2007, the Department has \$1,452,600 invested in a wide range of capital assets, including land, buildings, equipment and vehicles. The value of the capital assets, net of depreciation, is \$903,276.

**Economic Factors and Next Year's Budget and Rates**

The Department staff work together to maintain revenue sources and control expenditures. The main source of revenue is contributions from local units.

The major expenses of the Department are wages.

The Department staff will continue to monitor revenues and expenditures due to ongoing economic conditions.

**Requests for Information**

This financial report is designed to provide a general overview of the Department's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Ogemaw Fire Department located at 119 N. Third Street, West Branch, Michigan 48661.

OGEMAW FIRE DEPARTMENT  
Ogemaw County, Michigan

STATEMENT OF NET ASSETS  
December 31, 2007

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and Cash Equivalents (Note 3)	\$ 134,220
Noncurrent Assets:	
Capital Assets, Net (Note 4)	<u>903,276</u>
Total Assets	<u>1,037,496</u>
<u>Liabilities</u>	
Accrued Liabilities	<u>4,846</u>
<u>Net Assets</u>	
Invested in Capital Assets	903,276
Unrestricted	<u>129,374</u>
Total Net Assets	<u>\$ 1,032,650</u>

The accompanying notes to financial statements are an integral part of this statement.



OGEMAW FIRE DEPARTMENT  
Ogemaw County, Michigan

STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2007

<u>Function/Program</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>	<u>Revenue and</u>
					<u>Changes in</u>
		<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>	<u>Net Assets</u>
			<u>Contributions</u>	<u>Contributions</u>	<u>Primary</u>
					<u>Government</u>
					<u>Governmental</u>
					<u>Activities</u>
<b><u>Primary Government</u></b>					
Governmental Activities:					
Public Safety:					
Fire	\$ <u>167,299</u>	\$ <u>40,821</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>(126,478)</u>
Total Governmental Activities	\$ <u>167,299</u>	\$ <u>40,821</u>	\$ <u>0</u>	\$ <u>0</u>	<u>(126,478)</u>
General Revenue:					
Intergovernmental Not Restricted to					
a Specific Purpose					134,028
Interest and Investment Earnings					2,051
Sale of Capital Assets					3,500
Other					<u>7,642</u>
Total General Revenue					<u>147,221</u>
Change in Net Assets					20,743
Net Assets - Beginning					<u>1,011,907</u>
Net Assets - Ending					\$ <u>1,032,650</u>

The accompanying notes to financial statements are an integral part of this statement.

OGEMAW FIRE DEPARTMENT  
Ogemaw County, Michigan

BALANCE SHEET  
GOVERNMENTAL FUND  
December 31, 2007

	<u>General Fund</u>
<u>ASSETS</u>	
Cash and Cash Equivalents (Note 3)	\$ <u>134,220</u>
Total Assets	\$ <u><u>134,220</u></u>
<u>LIABILITIES AND FUND EQUITY</u>	
<u>Liabilities</u>	
Accrued Liabilities	\$ <u>4,846</u>
<u>Fund Equity</u>	
Fund Balances:	
Unreserved:	
Designated For:	
Capital Improvements	<u>129,374</u>
Total Fund Equity	<u><u>129,374</u></u>
Total Liabilities and Fund Equity	\$ <u><u>134,220</u></u>

The accompanying notes to financial statements are an integral part of this statement.

OGEMAW FIRE DEPARTMENT  
Ogemaw County, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
December 31, 2007

Total Governmental Fund Balances	\$	129,374
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at year end consist of:

Capital Asset Cost	\$	1,452,600	
Accumulated Depreciation		<u>(549,324)</u>	
			<u>903,276</u>

Total Net Assets - Governmental Activities	\$	<u>1,032,650</u>
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The accompanying notes to financial statements are an integral part of this statement.

OGEMAW FIRE DEPARTMENT  
Ogemaw County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUND  
For the Year Ended December 31, 2007

	<u>General Fund</u>
<u>Revenue</u>	
Intergovernmental Revenue	\$ 134,028
Charges for Services	40,821
Interest and Rentals	2,051
Other Revenue	11,142
Total Revenue	<u>188,042</u>
<u>Expenditures</u>	
Current:	
Public Safety	90,297
Capital Outlay	19,426
Total Expenditures	<u>109,723</u>
Excess of Revenue Over (Under) Expenditures	78,319
Fund Balances - Beginning of Year	<u>51,055</u>
Fund Balances - End of Year	<u>\$ 129,374</u>

The accompanying notes to financial statements are an integral part of this statement.

OGEMAW FIRE DEPARTMENT  
Ogemaw County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2007

Total Net Change in Fund Balances - Governmental Funds	\$ 78,319
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Current Year Depreciation Expense	<u>(57,576)</u>
Change in Net Assets of Governmental Activities	<u>\$ 20,743</u>

The accompanying notes to financial statements are an integral part of this statement.

OGEMAW FIRE DEPARTMENT  
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Ogemaw Fire Department (Fire Department) conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governments. Private-sector standards of accounting issued after November 30, 1989, are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies:

A. Description of Fire Department Operations and Fund Types

The Ogemaw Fire Department is a joint area Fire Board serving six governmental units - City of West Branch, Churchill Township, Edwards Township, Horton Township, Ogemaw Township and West Branch Township.

The Board consists of an executive from each government or a designated representative with one vote each. The accounting records are maintained by the Secretary-Treasurer. The Secretary-Treasurer is appointed by the Chairman.

All activities over which the Fire Department exercises oversight responsibility have been included in the reporting entity. Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters of the entity.

B. Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements of the Fire Department are not misleading. The primary government of the Fire Department consists of all funds, departments, boards, and agencies that are not legally separate from the Fire Department.

Component units are legally separate organizations for which the Fire Department is financially accountable. The Fire Department is financially accountable for an organization if the Fire Department appoints a voting majority of the organization's governing board and (1) the Fire Department is able to significantly influence the programs of services performed or provided by the organization; or (2) the Fire Department is legally entitled to or can otherwise access the organization's resources; the Fire Department is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Fire Department is obligated for the debt of the organization. Component units may also include organizations for which the Fire Department approves the budget, the issuance of debt, or the levying of taxes. The Fire Department does not have any component units.

C. Basis of Presentation

The Fire Department's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

**Government-Wide Financial Statements**

The statement of net assets and the statement of activities display information about the Fire Department as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the Fire Department that are governmental and those that are considered business-type activities. The Fire Department does not currently have any business-type activities.

OGEMAW FIRE DEPARTMENT  
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Continued)

The statement of net assets presents the financial condition of the governmental activities of the Fire Department at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Fire Department's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Fire Department, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program is self-financing or draws from the general revenues of the Fire Department.

**Fund Financial Statements**

During the year, the Fire Department segregates transactions related to certain Fire Department functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Fire Department at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column.

D. Fund Accounting

The Fire Department uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Fire Department functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There is one category of funds: governmental.

**Governmental Funds**

Governmental funds are those through which most governmental functions of the Fire Department are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the Fire Department's major governmental fund:

General Fund - This fund accounts for all financial resources. Revenues are derived primarily from intergovernmental revenues.

E. Measurement Focus

**Government-Wide Financial Statements**

The government-wide financial statements are prepared using a flow of economic resources measurement focus.

All assets and all liabilities associated with the operation of the Fire Department are included on the statement of net assets.

OGEMAW FIRE DEPARTMENT  
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Measurement Focus (Continued)

**Fund Financial Statements**

The governmental fund is accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenue, expenditures, and changes in fund balances reflects the sources (i.e., revenues and other financial sources) and uses (i.e., expenditures and other financial uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

F. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

**Revenues – Exchange and Non-exchange Transactions**

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Fire Department, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the Fire Department receives value without directly giving equal value in return, include grants, entitlements and donations. On the accrual basis, revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Fire Department must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Fire Department on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: intergovernmental revenue, charges for services, fines and forfeitures, and interest.

**Expenses/Expenditures**

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.



OGEMAW FIRE DEPARTMENT  
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Cash and Cash Equivalents

For presentation on the financial statements, investments in the cash management pools and investments with an original maturity of three months or less at the time they are purchased by the Fire Department are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

Investments are reported at fair value, except for repurchase agreements and certificates of deposit which are reported at cost which approximates fair value. Fair value is based on quoted market prices. Mutual funds are reported at current share price.

H. Receivables

Receivables generally consist of revenue due from consumers for fire runs. All receivables are net of estimated uncollectible accounts. Receivables are recognized to the extent the amounts are determined material and substantiated, not only by supporting documentation but also by a reasonable systematic method of determining their existence, completeness, valuation, and collectibility.

The allowance for doubtful accounts at December 31, 2007 was \$0.

I. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Capital assets are depreciated using the straight-line method over the following useful lives:

Descriptions	<u>Estimated Lives</u>
Buildings and Improvements	25 - 50 years
Land Improvements	10 - 20 years
Equipment and Vehicles	5 - 25 years

OGEMAW FIRE DEPARTMENT  
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from the governmental fund are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that are paid from governmental funds are recognized as liabilities in the fund financial statements only to the extent that they are due for payment during the current year.

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consists of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Fire Department or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Fire Department's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

L. Governmental Fund Balance Designations

Designations of portions of the fund balance are established to indicate tentative plans for financial resource utilization in a future period. Fund balance designations have been established for future capital improvements expenses.

M. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended December 31, 2007.

N. Budgets and Budgetary Accounting

The Ogemaw Fire Department normally follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Prior to December 1, the Chairman submits to the Board a proposed operating budget for the fiscal year commencing the following January 1. This operating budget includes proposed expenditures and the means of financing them.
2. Prior to January 1, the budget is legally enacted through passage of a motion.
3. All budget appropriations lapse at year-end. Budgetary amounts reported herein are as originally adopted, and as amended by the Board throughout the operating year.

The Fire Department adopts budgets for the General Fund.

The budgets of the Fire Department are prepared on the same basis of accounting as the financial statement presentation. The budgets were adopted at the activity level.

OGEMAW FIRE DEPARTMENT  
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

P. Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLES

Change in Accounting Principles

For 2008, the Fire Department has implemented Governmental Accounting Standards Board (GASB) Statement Number 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments" and GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus".

GASB Statement No. 34 creates new basic financial statements for reporting on the Fire Department's financial activities. The financial statements include government-wide financial statements prepared on the accrual basis of accounting. The government-wide financial statements split the Fire Department's programs between governmental activities and business type activities. The Fire Department does not currently have any business-type activities.

GASB Statement No. 37 makes certain clarifications regarding escheat property and modifies several provisions of GASB Statement No. 34, including the Management's Discussion and Analysis.

NOTE 3 - DEPOSITS AND INVESTMENTS

At year-end, the Fire Department's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>
Cash and Cash Equivalents	\$ <u><u>134,220</u></u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank Deposits (Checking Accounts and Certificates of Deposit)	\$ 134,070
Petty Cash and Cash on Hand	<u>150</u>
Total	\$ <u><u>134,220</u></u>

OGEMAW FIRE DEPARTMENT  
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2007

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Fire Department's deposits may not be returned to it. As of December 31, 2007, \$22,435 of the Fire Department's bank balance of \$140,596 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Concentration of Credit Risk

The Fire Department will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Fire Department's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Interest Rate Risk and Foreign Currency Risk

The Fire Department's investment policy does not address interest rate risk and foreign currency risk.

Investments

The Fire Department Board has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the Fire Department to deposit and invest in the following:

- λ Accounts of federally insured banks, credit unions and savings and loan associations
- λ Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- λ United States government or federal agency obligation repurchase agreements
- λ Banker's acceptances of United States banks
- Commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase
- Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The Fire Department's deposits and investments are in accordance with statutory authority.

OGEMAW FIRE DEPARTMENT  
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2007

NOTE 4 - CAPITAL ASSETS

Capital asset activity of the primary government for the fiscal year ended December 31, 2007, was as follows:

	Balance 01/01/07	Additions	Deletions	Balance 12/31/07
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 35,000	\$ 0	\$ 0	\$ 35,000
Capital Assets Being Depreciated:				
Buildings	170,000	0	0	170,000
Equipment	29,100	0	0	29,100
Vehicles	1,218,500	0	0	1,218,500
Subtotal	<u>1,417,600</u>	<u>0</u>	<u>0</u>	<u>1,417,600</u>
Less Accumulated Depreciation for:				
Buildings	(93,500)	(4,250)	0	(97,750)
Equipment	(21,428)	(4,586)	0	(26,014)
Vehicles	(376,820)	(48,740)	0	(425,560)
Subtotal	<u>(491,748)</u>	<u>(57,576)</u>	<u>0</u>	<u>(549,324)</u>
Capital Assets Being Depreciated	<u>925,852</u>	<u>(57,576)</u>	<u>0</u>	<u>868,276</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 960,852</u>	<u>\$ (57,576)</u>	<u>\$ 0</u>	<u>\$ 903,276</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities	
General Government:	
Fire	\$ <u>57,576</u>

NOTE 5 - EXCESS OF EXPENDITURES OVER APPROPRIATION IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Fire Department's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Fire Department for these budgetary funds were adopted at the activity level.

During the year ended December 31, 2007, the Fire Department incurred expenditures which were in excess of the amounts appropriated as follows:

<u>Fund/Function</u>	Total Appropriations	Amount of Expenditures	Budget Variance
Public Safety	\$ 85,000	\$ 90,297	\$ 5,297

OGEMAW FIRE DEPARTMENT  
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2007

NOTE 6 - UNEMPLOYMENT COMPENSATION

The Fire Department is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the Fire Department must reimburse the Employment Agency for all benefits charged against the Fire Department. Accrued unemployment compensation was \$0 as of December 31, 2007.

NOTE 7 - RISK MANAGEMENT

The Fire Department is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries and natural disasters. The Fire Department has purchased commercial insurance for risks of loss. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 8 - CONTINGENCIES

There is currently an Internal Revenue Service investigation being conducted on the Fire Department due to some of the Fire Departments quarterly payroll tax payments being submitted to the Internal Revenue Service on incorrect forms over the past several years. This caused the Internal Revenue Service to believe that the taxes were not paid. It is unknown at this time whether or not any penalties or interest will be charged to the Fire Department.

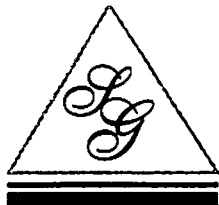
REQUIRED SUPPLEMENTARY INFORMATION

OGEMAW FIRE DEPARTMENT  
Ogemaw County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
 GENERAL FUND  
For the Year Ended December 31, 2007

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Intergovernmental Revenue	\$ 134,028	\$ 134,028	\$ 134,028	\$ 0
Charges for Services	10,000	10,000	40,821	30,821
Interest and Rentals	2,000	2,000	2,051	51
Other Revenue	0	0	11,142	11,142
Total Revenue	<u>146,028</u>	<u>146,028</u>	<u>188,042</u>	<u>42,014</u>
<u>Expenditures</u>				
Current:				
Public Safety	77,300	85,000	90,297	(5,297)
Capital Outlay	<u>20,000</u>	<u>20,000</u>	<u>19,426</u>	<u>574</u>
Total Expenditures	<u>97,300</u>	<u>105,000</u>	<u>109,723</u>	<u>(4,723)</u>
Excess of Revenue Over Expenditures	48,728	41,028	78,319	37,291
Fund Balances - Beginning of Year	<u>51,055</u>	<u>51,055</u>	<u>51,055</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 99,783</u>	<u>\$ 92,083</u>	<u>\$ 129,374</u>	<u>\$ 37,291</u>





*Stephenson, Gracik & Co., P.C.*

Certified Public Accountants & Consultants

Alan J. Stephenson, CPA  
Gerald D. Gracik Jr., CPA  
James J. Gracik, CPA  
Donald W. Brannan, CPA  
Kyle E. Troyer, CPA  
Herman A. Bertuleit, CPA

August 12, 2008

Management and the Board of Directors  
Ogemaw Fire Department  
Ogemaw County, Michigan

We have conducted the audit of the financial statements of the governmental activities and the major fund of the Ogemaw Fire Department, Ogemaw County, Michigan, as of and for the year ended December 31, 2007 and have issued our report dated August 12, 2008. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The appendices to this letter set forth those communications as follows:

I Auditor's Communication of Significant Matters with Those Charged with Governance

II Management Comments

We discussed these matters with various personnel in the Fire Department during the audit and met with management on August 12, 2008. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the Board of Directors, others within the Fire Department and the Michigan Department of Treasury, and are not intended to be and should not be used by anyone other than those specified parties.

Very truly yours,

*Cynthia R. Scott*

Cynthia R. Scott  
Certified Public Accountant

*Stephenson, Gracik & Co., P.C.*

## **Appendix I**

### **Communication to Those Charged with Governance**

#### **Responsibilities Under Generally Accepted Auditing Standards**

As stated in our engagement letter dated May 21, 2008, we are responsible for conducting our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS) established by the Auditing Standards Board of the American Institute of Certified Public Accountants. Our responsibility, as prescribed by US GAAS, is to express an opinion about whether the financial statements prepared by management, with your oversight, are fairly presented, in all material respects. Our audit does not relieve you of your responsibilities.

#### **Planned Scope and Timing of the Audit**

We performed the audit as outlined in our engagement letter related to planning matters dated May 21, 2008.

#### **Significant Audit Findings**

- Management is responsible for the selection and use of appropriate accounting policies. We will advise management about their appropriateness and application. The significant accounting policies are described in (Note 1) of the financial statements. We noted no transactions entered into by the Fire Department during the year where there is lack of authoritative guidance or consensus. There are no significant transactions that were recognized in a period other than which they occurred.
- Accounting estimates are based on management's knowledge and experience about past and current events and assumptions. Some estimates are sensitive because of their significance to the financial statements and the fact that future events affecting them may differ from those expected.
- Disclosures in the financial statements are neutral, consistent and clear. Certain disclosures are more sensitive than others due to their relevance to the users of the financial statements.

#### **Difficulties Encountered During the Audit**

We encountered no difficulties during the audit.

#### **Corrected and Uncorrected Misstatements**

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management and management has posted all adjustments. However, current year payroll expenditures are currently overstated by approximately \$4,400 due to the prior year accrued payroll expense being run through current year expenses. No prior period adjustment was deemed necessary.

#### **Disagreements with Management**

A disagreement with management is defined as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, which could be significant, individually or in the aggregate to the financial statements or the auditor's report. We had no disagreements with management during the audit.

#### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

**Appendix I**  
**Communication to Those Charged with Governance**

**Management's Consultations with Other Accountants**

From time to time, management may decide to consult with other accountants about audit and accounting matters. Should this occur, professional standards require the consulting accountant to communicate with us to determine that they have all the relevant facts. To our knowledge, there were no consultations with other accountants during the year.

**Significant Issues Discussed or Subject to Correspondence with Management**

From time to time auditors discuss significant issues with management such as business conditions affecting the entity, business plans and strategies that may affect the risk of material misstatement and the application of accounting principles and auditing standards. The issues discussed during the audit occurred during the normal course of our professional relationship and our responses were not a condition to our retention.

## **Appendix II**

### **Management Comments**

In planning and performing our audit of the financial statements of the governmental activities and the major fund of the Ogemaw Fire Department as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Fire Department's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fire Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Ogemaw Fire Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We identified the following deficiency in internal control that we consider to be a significant deficiency.

#### **CASH RECONCILIATIONS**

Timely preparation of complete and accurate bank reconciliations is a key to maintaining adequate control over both cash receipts and disbursements. During our audit, it was noted that bank reconciliations were not being conducted. We recommend that management establish procedures to ensure that cash accounts are reconciled on a monthly basis. In addition we recommend that all reconciliations be reviewed by someone who is not involved in the reconciliation process. This review should be documented with initialing and dating of the reconciliation.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We identified the following deficiencies in internal control that we consider to be material weaknesses:

#### **FINANCIAL STATEMENT PREPARATION CONTROLS**

In conjunction with our audit, we have been contracted to prepare the financial statements and related disclosures based on the information provided to us by Management. We would like to stress that this service is allowable under AICPA ethics guidelines and may be the most efficient and effective method for preparation of Fire Department's financial statements. However, if at any point in the audit we as auditors are part of the Fire Department's control system for producing reliable financial statements, auditing standards indicate that the Fire Department has a control deficiency. If Management is not able to prepare financial statements, including disclosures, and the auditors are contracted to prepare these statements, this is considered a control deficiency. We recommend that Management and those charged with governance evaluate and document their decision on the costs and benefits of whether to contract for this service with our firm.

## **Appendix II Management Comments**

### **SEGREGATION OF DUTIES**

Internal controls are designed to safeguard assets and help or detect losses from employee dishonesty or error. A fundamental concept in a good system of internal control is the segregation of duties. Although the size of the Fire Department's staff prohibits complete adherence to this concept, we believe that implementing the following practice could greatly improve existing internal control without impairing efficiency. Bank statements (including copies of canceled checks and appropriate advices) should be received directly by someone other than the employee maintaining the cash records. Such items should be reviewed prior to turning them over for reconciliation. This review should be documented with initialing and dating of the bank statement. Unusual items noted during the review should be investigated promptly.

We have also noted various items we feel could improve your internal controls or operating efficiencies. These items are not considered significant deficiencies or material weaknesses but are presented for your consideration.

### **QUICKBOOKS**

It is our understanding that the QuickBooks accounting software is currently not password protected which causes a segregation of duties issue in that the same individual could potentially record accounting data and then approve that recorded data. In order to help control the accounting environment, we recommend that management adopt policies and procedures requiring the use of passwords. Only the Fire Chief, Board Chairman and the Treasurer should have passwords to QuickBooks, and these passwords should be changed at least once every six months.

It was also noted that the QuickBooks accounting software is currently not being backed up on a regular basis. Backing up the accounting software is an essential part of any operation. We recommend that the Treasurer begin backing up Quick Books on a quarterly basis (at a minimum). This back up should be kept off site as to protect the records in case of a fire or natural disaster.

### **EXPENSE DOCUMENTATION**

During the audit, we noted that proper supporting documentation for petty cash and credit card disbursements were not always available. By not matching each expense with a receipt, expenses could be overlooked and personal employee expenses could easily slip through as a business expense. We recommended that each month the employee's receipts be matched and attached to the credit card statement, or petty cash reimbursement request. If obtaining these receipts presents itself a problem, we recommend that the Fire Department consider adding a policy that states that unsupported credit card charges and petty cash use would be offset against the individual making that purchase. This would help to encourage employees to submit receipts for all purchases made.

In addition, we noted that when the petty cash account was reimbursed, the reimbursement check was made out to "cash." This is an undesirable practice because checks made out to cash may be cashed by unauthorized persons, and the bank cannot be held liable for cashing them. We recommend that checks written to reimburse the petty cash account be made payable to the person authorized to cash such checks.

**STATUS OF PRIOR YEAR COMMENTS:**

We have reviewed the status of comments and recommendations made in the prior year. The status of prior year comments is as follows:

<u>Comment</u>	<u>Implemented/ Situation Corrected</u>	<u>Management Decision To Not Implement</u>	<u>Progress Made</u>	<u>Situation Still Exists</u>
Adopt a written credit card policy.				X
Update the Fire Truck Replacement Plan.		X		

In regards to adopting a written credit card policy, we did note that the opening of a credit card, those allowed to utilize the credit card and the credit limit on the card were approved in the January 2006 board minutes; however, we recommend that an actual credit card policy be adopted that meets all internal requirements of the Fire Department as well as any requirements by the Michigan Department of Treasury. This policy should address the custody and security of the cards, whom is allowed to use the cards, include timely reconciliation by management, include all items allowed to be charged and those not allowed, include a statement that all charges should be supported by adequate documentation, and address who is to receive the statements. A sample credit card policy was provided to the Secretary / Treasurer during the audit to use as a starting point.